THE LENDING POLICIES OF MUTUAL FEDERAL SAVINGS AND LOAN ASSOCIATION, ATLANTA, GEORGIA (1925-1961)

A THESIS

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A.M.F.

DEDICATION

To the Members of My Beloved Family

My Father, Edmond D. Ferguson
My Brother, Wilmer O. Ferguson
My Sister, Ellen Ferguson
My Sister, Inez M. Peet

For their kindness, devotion, inspiration,

and encouragement during this research.

A.M.F.

TABLE OF CONTENTS

LIST OF TABLES

CHAPTER I

INTRODUCTION

The Problem.--Savings and loan associations operate in two major markets: one is the accumulation of savings and the other, the lending of these funds for the purpose of acquiring homes.[1]

The problem which presents itself in this study is the determination of the criteria upon which Mutual Federal Savings and Loan Association of Atlanta has made its loans. Specifically how it has encountered and dealt with problems peculiar to Mutual Federal, and the technique it has used to solve them.

Significance of Study.--It is felt that a study of the lending policies of Mutual Federal Savings and Loan Association of Atlanta is significant because this association is fairly typical in size of such institutions in the United States, and when statistics contained in this study are related to national statistics, conformity or lack of it is revealed.

It is also significant to know how an association operated under the leadership of Negroes and one which a majority of Negro members competes with similar institutions operated by whites in the Atlanta region.

The researcher is particularly interested in the subject as she is seriously concerned about house and home financing policies and procedures in the United States with the view toward the application of such rules and regulations as they relate to her home-land (Nassau, Bahamas).

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[1]American Savings & Loan Institute, Savings & Loan Principle, Part II (Chicago, 1954), p. 1.

Limitations of the Study.--The study will cover the lending policies of one association, Mutual Federal Savings and Loan Association of Atlanta, Georgia for the years 1925 to 1962.

Procedure of Study.--The empirical method of research is employed in this study. The loan register of Mutual Federal Savings and Loan Association is a primary source of data. Frequency distribution tables were prepared indicating size of loans, appraisal value of property secured by loans, rates of interest charged, term of loans, and purpose of loans. Also, combination of the above were prepared for three separate and distinct periods in order to discover any trends which may be revealed.

The study includes (1) a brief history of Savings and Loan movement in the United States, (2) the Home Loan Bank System in the United States, (3) history of Mutual Federal Savings and Loan Association of Atlanta, and (4) statistical analysis of data pertaining to lending operations of the subject association, including interpretation, implications and projection.

CHAPTER II

SAVINGS AND LOAN MOVEMENT IN THE UNITED STATES

The cause for the development of the first savings and loan association had its genesis in the desire "to enable the contributors thereof to purchase dwelling houses." Savings and loan associations started as neighborhood clubs in most parts of the country. Neighbors wished to become home owners and began contributing a certain sum monthly to a treasurer. The aggregate of these monthly payments was soon sufficient to buy or build a home for one of the members. The fund was then loaned to one of them, and as other funds accumulated, others could borrow. The joint purposes of thrift and home ownership are inseparable and are of equal importance. There could be no cooperative savings and loan association without both. Because of the difficulty and expense involved in financing the building of homes for wage earners who were for the most part without property, a very essential need was filled by the establishment of savings and loan associations.

The history of savings and loan associations in the United States can be divided into six distinct periods as follows: (1) the introductory period, (2) the rebirth, (3) the second period, (4) the prosperity period, (5) fourth period, and (6) the present period.

Introductory Period.--The introductory period of savings and loan associations in the United States began in 1831 and lasted until 1871, a period of 40 years. This period started with the Oxford Provident Savings and Loan Association, which operated on the terminating plan. Ten years later this association was liquidated after its purpose had been completed, but during the term of its life its members had saved enough money with which they could buy or build homes for themselves. In January, 1841, a share was worth $500. During this ten year period, The Brooklyn Building and Mutual Fund Loan Association had been formed in New York and even before Oxford Provident Building and Loan Association terminated, a second one of the same name was organized which had more than twice as many members as the first one. This was followed by a third association of the same name in 1852, which issued seventeen different series of shares.

There was a downturn in business following the panic of 1837, but by 1844, the business cycle was on the upward trend, which continued for thirteen years--to 1857. This prosperous march of business was reflected in savings and loan association gains. In 1846, an association was started in Baltimore, Maryland, and in January, 1849, the Decatur Building and Loan Association of Frankford, Pennsylvania, was chartered. This latter association is the oldest savings and loan association now operating in the United States.[1]

During this same period, more than 50 associations were organized in and around Philadelphia; 20 associations were formed in Boston; Connecticut had 34 associations, and many others followed in various states. The population was moving towards the West, and it was a natural occurence to find that the savings and loan movement had spread to the West also. Associations were formed in Illinois in 1851, in California in 1865, and in Ohio in 1867, and then came to the depression of 1870 which stopped further expansion and resulted in retrenchment.

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[1]Rosenberg, Samuel A., Negro Managed Savings and Loan Association (Hampton Institute, Hampton, Virginia, 1940), p. 4.

Rebirth.--The dark period of the seventies had a ray of light in the organization of the Mutual Savings and Loan Association of Dayton, Ohio, which started in "Dayton" on Permanent Plan. Up to this time all associations with the exception of those in South Carolina had been operating on the terminating plan, which meant that under ordinary conditions the associations expired when the shares were fully paid up and the purpose of the organization completed. This resulted in the formation and closing of many associations. The permanent plan was started in South Carolina before 1850 but it did not spread beyond the borders of that state.

Due to the impetus which the permanent plan gave and also to the relatively good business conditions, savings and loan associations flourished. The decade from 1880 to 1890 was one of opportunity, and it was during this period that Negro savings and loan associations took hold and started on a course of cooperation which has led the way to success. This period may be term the pioneer period for Negro operated associations, some of which have been very successful even up to the present time.[2]

Negro operated savings and loan associations were the result of an honest desire on the part of Negroes to secure better housing and to own homes. In Portsmouth and Hampton, Virginia, it was impossible for a Negro to finance the building of a home. Banks, savings and loan associations, and other similar agencies were not interested in aiding Negroes to secure homes. In Philadelphia, the slums were the designated dwelling places for the Negroes who rented houses, for desirable homes could not be rented. It seemed that the landlords had agreed among themselves that the worst the city had to offer was good enough for Negroes. And very few people saved enough money to purchase their own homes. Many who desired to own homes found themselves tremendously handicapped. This pressure, which was brought

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[2]Ibid., p. 5.

to bear on Negroes by lending agencies and landlords, resulted in a desire to secure better homes, and the best solution of the problem was the savings and loan association.[3]

Despite difficult times during the pioneer period, many associations were successful. Actually, these hard times seemed to contribute to constructive management of the savings and loan associations. It was during the beginning of this period that real estate values fell and business was at a low ebb. The depression of 1884, the panic of 1893, and the silver campaign depression of 1895 all took place with this pioneer period.[4] Savings and loan associations carried on, however, on a firm basis, arguing strongly for the belief that cooperative effort makes greater strides during times of stress than during prosperous periods.

Second Period.--The second period started in 1904 and continued to 1916. There was a healthy growth and expansion during this period in about five states. The course of progress was true and the development was steady. This growth was really a continuation along the original lines as laid down by the Tidewater Building and Loan Association. Although during this period of growth two short depressions occurred between 1903 and 1904 and between 1907 and 1908, the population in urban and industrial centers was increasing and the need for homes became even greater. "There was an increased urban trend of Negro population in the period 1900-1910."[5] Savings and loan associations became an answer to this need.

Prosperity Period.--The third period in the operation of savings and loan associations can well be termed the Prosperity Period. During the

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[3]*Ibid.*, p. 2.

[4]*Op. cit.*, p. 6.

[5]Work, Monroe, *Negro Year Book*, 1937-1938.

fourteen years from 1916 to 1930 the associations grew larger. This growth was made during a period which included the entrance into World War I, a short depression in 1921, a post-war housing and real estate boom, a fairly long period of prosperity, and a Bull Market boom that ended about 1929. During this period, savings and loan associations prospered. After 1929, many of these prosperous savings and loan associations, particularly those which had not been established very long, failed because of the depression.

Because of the opportunities offered by industry during World War I, Negroes migrated to industrial centers creating new demands for housing. Chicago and Philadelphia showed increased in Negro population of 63 per cent and 114 per cent respectively from 1920 to 1930. Many of these migrants brought some capital along with them and they were in a good position to build homes in order to avoid the payment of the high rentals which were prevalent at that time. The building boom which started about 1922 to supply the much needed houses, caused the demand for loans from the associations to be firm. Since rents were soaring, the demand for mortgages frequently exceeded available funds.

In this period savings and loan associations were organized around the churches, which were then, and are now, a potent factor in community welfare. Fraternal and community groups became homeowner conscious and sponsored savings and loan movements also. An interesting building and loan association was organized during this period, namely, "The Woman's Building and Loan Association of Philadelphia," which was composed of all women with the exception of the attorney, Mr. Mitchell, who was the father and guiding hand of over twenty associations in Philadelphia.[6]

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[6] Martin, I. M., Negro Managed Building and Loan Association in Philadelphia, (The Associated Real Estate Brokers of Philadelphia, Pennsylvania), p. 16.

Fourth Period.--The fourth period began in 1930 and ended in 1936. During this period savings and loan associations were in the midst of the greatest depression which has been recorded in the United States. The "acid test" was administered and resulted in many foreclosures. Notices of intention to withdraw were invoked, and some associations closed their doors because business inflow of savings as well as lending activity was almost nil. Conditions were bad and were getting worse when the banking holiday occurred in March, 1933. Many associations remained open, and others closed during and after the banking holiday. Then the government entered the field with help in the form of the Home Owners Loan Corporation, and, in addition, the Federal Home Loan Bank gave great assistance by granting credit. More associations failed from 1933 to 1936 than had ever occurred in any previous twenty-five years.[7]

Present Period.--During the latter thirties and early forties, savings and loan associations all over the United States enjoyed a period of prosperity, and Mutual Federal Savings and Loan Association was no exception. Except for World War II and the Korean War, savings and loan association flourished in the United States. Presently, the level of home building is predicted to be higher in 1963 than 1962 by one out of every five managing officers over the country. Lower starts this year were estimated by 27 per cent and more than half (53 per cent) report that they anticipate no change in housing starts. Comparable estimates made last year for 1962 starts were 20 per cent higher, 23 per cent lower and 49 per cent the same.[8]

It will not be complete to give the movement of savings and loan associ-

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[7]Bodfish, Morton and Theobold, A. D., Savings and Loan Principles (New York: Prentice-Hall, Inc., 1938), p. 60.

[8]United States Savings and Loan League, Current Savings Association and Co-operative Bank Trends, Spring, 1963, p. 3.

ations in the United States without commenting briefly about the institutions with which they are affiliated. While there are many others, the most important ones include (1) the Federal Home Loan Bank System, (2) the Federal Savings Loan Insurance Corporation, (3) the Federal National Mortgage Association, and (4) the United Savings and Loan League.

Federal Home Loan Bank System.--In 1932, there was established under the terms of the Federal Home Loan Bank Act a central reserve credit system for thrift and home financing institutions. This system is known as the Federal Home Loan Bank System.

The country is divided into 11 Federal Home Loan Bank districts and each has a Federal Home Loan Bank. These central banks constitute a permanent reservoir of credit whereby funds are available for member institutions, as occasions demand, to maintain liquidity or to provide means for mortgage lending when local funds are insufficient.[9]

Federal Savings Loan Insurance Corporation.--The purpose of the Federal Savings Loan Insurance Corporation is to protect the member associations' accounts against loss in case of default. Protection against loss is provided up to $10,000.

Federal National Mortgage Association.--The nation's principal secondary market in the home mortgage field is the Federal National Mortgage Association. It was organized in 1938 by act of Congress for the purchase and sale of home loans insured or guaranteed by the United States government agencies. (Federal Housing Administration insured and Veterans Administration guaranteed loans.)

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[9]United States Savings and Loan League, Savings and Loan Fact Book, (Chicago, 1954), p. 62.

United States Savings and Loan League.--The United States Savings and Loan League is the industry society of savings and loan associations. It exists to assist in promoting thrift, to encourage private investment in the purchase of homes, to devise and secure safe methods of conducting business of savings association and co-operative banks; and to improve the statutes and regulations affecting the business.

Mutual Federal Savings and Loan Association of Atlanta, the institution under study in this thesis, holds membership in all of the above mentioned organizations. As stated earlier, the Federal Loan Bank System consists of 11 Federal Home Loan Bank strategically located in eleven districts throughout the United States. Mutual Federal is a member of the Greensboro Federal Home Loan Bank which is in the fourth district.

CHAPTER III

LENDING OPERATIONS OF MUTUAL FEDERAL SAVINGS AND LOAN ASSOCIATION OF ATLANTA

> Anyone who has even a superficial knowledge of the Negro situation in the United States is aware of the enormority of the housing problem. Barred from large areas by custom, law or covenant, and charged exorbitant rents in the ghetto sections, the Negro has often turned to the possibility of building his own home. Added to the difficulty of purchasing desirable property, of amassing sufficient savings on his earnings to finance the home, there was frequent rebuff by the loan institutions to which he turned for assistance.[1]

Such a situation existed in Atlanta, and as a result, a group of ambitious citizens organized what is known today as Mutual Federal Savings and Loan Association of Atlanta.

Mutual Federal Savings and Loan Association of Atlanta began as Atlanta Mutual Building, Loan and Savings Association on June 20, 1925, with a group of fifteen leading business and professional men who contributed $100 each making a total capitalization of $1,500.[2] The fifteen men who became the Board of Trustees, subscribed a total of $15,000 worth of permanent capital and began the association with the small amount of $1,500 which they contributed. The business began on September 10, 1925, and was chartered by the Superior Court of Fulton County.

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[1]Kinzer, Robert H. and Sagarin, Edward, The Negro in American Business (New York, 1950), p. 110.

[2]All information pertaining to the history of Mutual Federal Savings and Loan Association of Atlanta was taken either from the minute books of this association or from interviews with its management.

The association was operated under a State of Georgia charter and carried on its business from the offices of one of its directors for seven years (1925-1932). At this early stage it was evident that additional members were needed so a campaign for members was launched and was introduced to the public through various forms of advertisements such as circular letters, personal salesmen, etc.

In 1926, it was found that more income was needed in order to continue the operation of the business and also so that the influence of the business might be felt through its lending powers. This, of course, could only be done in two ways--either by savings accounts of new members, or completion of payments on subscribed permanent shares by the board members. The first method did not work favorably so the directors pledged substantial amounts toward their total subscriptions. After expenses were paid and other liabilities were undertaken, four additional members were placed on the board of directors bringing the total to nineteen. It was agreed by these directors to recruit from fifteen to twenty men to learn building and loan principles in an attempt to evoke new life into the business. During this beginning period, the organization consisted of a secretary, who performed clerical work and maintained records; a treasurer, who was the accountant and controller; an appraisal committee; an investment committee; a membership committee--all responsible to the board of directors.

Although great difficulty was experienced in securing new share accounts, dividend rates were high (5 per cent to 7 per cent) during the first few dividend periods. This high rate was continued throughout the depression years.

The secretary recommended to the board of directors in December, 1931, that the association move into offices for the exclusive use of the association. The members of the board were called upon to contribute $5 toward expenses incident thereto as an alternative to sacrificing the policy of paying dividends semiannually. The amount would be credited in memorandum form only and returned if earnings should warrant. The opinion of the recommendor was that if the directors were not interested in the growth and development of the association, they were not deserving of their places, and that it was time that the association be made to grow and take its rightful place in the community. Citizens Trust Company, a commercial bank, was opening its doors early in 1932 and competition from other savings and loan associations was felt. The recommendation was referred to a special committee. On September 5, 1932, the shareholders passed a resolution to amend the original charter in order that the association might buy stock in the Federal Home Loan Bank and thereby become a member. This amendment boosted new public interest in the saving and loan business, and mass meetings were planned for various parts of the city with the main objective of obtaining members to make savings deposits and let them remain in the association, as contrast to early withdrawals.

Following the adoption of the resolution to become a member of the Federal Home Loan Bank System by the shareholders, the association received an acceptance letter, a portion of which is as follows:

> "You are to be congratulated and commended on having an association that has stood the examination and investigation requisite for membership in such a manner as to receive unanimous approval of its conditions, the character of its management, and home financing policy, as being consistent with economic home financing and with the purpose of the Act of Congress establishing the Home Loan Bank System, such approval making available to you the rights, privileges and benefits of all members under terms of such act."

The line of credit was $2,900 per term of the Federal Home Loan Bank originally, and subscription to fifteen shares of stock at $100 par.

In early 1937, management was severely scrutinized by federal examiners because its lending policies were not up to par. These examiners, who unlike state authorities, did not make such encouraging remarks about the association. In conjunction with this, business inflow of savings as well as lending activity were almost nil.

During the latter thirties and early forties, with attendant aggressive efforts to increase share capital and defense mobilization, the cooperation of shareholders in expansion plans, the association began to show signs of growth and identity as a financial institution. Both savings capital and loans increased by large percentages. The increased resources provided the necessary condition to prove that Mutual Federal could be operated to Federal Home Loan Bank standards, as attested by federalization in 1952. This significant milestone was also a booster. It was during this period that Mutual Federal experienced its greatest growth. It will be recalled that this was the readjustment period immediately following the Korean War and the American economy was growing at a fast rate. Mutual Federal's shares grew larger and as a result, the association participated greatly in the housing developments of Atlanta's West Side. A study of the population characteristics in this area will show that the entire area is largely (89.78 per cent) occupied by Negro families in the middle income group level. This area is one of the best residential areas in Atlanta.

In 1953, Mutual Federal occupied its present modern facilities. Its assets increased more than $8,000,000 in a two year period. With this growth came a management headed by a president who had been a member of the board of directors since the inception of the organization, and was distinguished in the fields of finance, accounting, economics and mortgage banking. The association can be termed as having had three distinct periods of development. There existed the pioneering spirits of its first president, the aggressiveness of its second president, and the conservative but intelligent management of its third and present president.

Growing out of the characteristics set forth above and the constituents to be served by this association, it has developed certain specific lending policies which are enumerated below:

1. Mutual Federal has never exceeded its authority as laid down by State, or more recently, Federal regulations.

2. The board of directors, within their salvage authority, is permitted to sell properties acquired by way of foreclosure, and to sell it over a period satisfactory to the management of the association without regard to other provisions of the regulations.

3. The Association's Board of Directors established policies to the effect that no director, officer, or employee of the association may borrow from the association, except in connection with his home. An examination of the records of Mutual Federal reveals that there were no violations of this restriction.

4. While federal regulations permitted federal associations to make conventional loans up to 25 years, Mutual Federal fixed its maximum period at 20 years.

5. The board of directors admonished the management of Mutual Federal to use its best offices to see to it that reclaimed properties (through foreclosures) are sold in the best interest of the association, without violation of the interests of the original borrowers.

6. While age of borrowers is not contained in any provision of federal regulations, the board of directors of Mutual Federal has directed its management to be constantly aware of this factor in the recommendation of loans in any category.

7. Mutual Federal has directed the management, in consistency with regulations, that no conventional loan shall be made in excess of the lower of cost of property, or appraisal thereof. An inspection of the records reveals that this admonition has not been violated.

8. Federal regulations require, and Mutual Federal's board has adopted the principle that no loan (except a share loan) may be made when the total of cash and Government (US) bonds owned by the association amounts to not more than 7 per cent of the share capital (deposits), before the loan is made.

9. While sound lending policy suggests that monthly payments required to retire a mortgage loan should not be more than 20 per cent of the borrower's monthly take-home pay, in many cases Mutual Federal has made loans requiring monthly payments as high as 35 per cent of the borrower's visible income.

Extended experience with Negroes had taught the association's management that these people will generally adjust other items in their personal budgets so as to meet reasonable home payments, even if in amounts apparently in excess of their ability to meet such payments. Accelerations and foreclosures have been relatively low proving the accuracy of management's assumptions.

10. Borrowers are required to declare their incomes on formal application blanks. Management is often aware of "padding" in the declaration reported in such blanks. On the other hand, management is also aware of side line income not declared in these blanks. School teachers and postal employees, for example, often hold other jobs such as caddies, waiters, bell hops, and the like. Others are also known to engage in activities not so savory in order to increase their total income credits, if not as declared.

11. Official policy of the association is to the effect that, except for VA (Veterans Administration) and FHA (Federal Housing Administration) loans, borrowers must own equities in their homes of not less than 20 per cent of the cost or appraised value thereof, whichever is lower. In many cases, management is aware that the borrower has no equity at all. By prior arrangement, second, and even third mortgages have in some cases been provided. These inferior liens are held off the public records until after Mutual Federal's mortgage instrument has been recorded. In such cases, the sum of these junior liens is made to appear as the borrower's equity.

12. Management has discovered that it has made loans wherein no down payment had been made on the purchase of a home. In such cases, real estate brokers, through device or machination, had made it appear that the applicant had already paid the seller an amount equal to the regulation down payment, when in fact nothing had been paid. This deception is easily achieved if the subject property shows the stated sales price to be present in value by appraisal. To be successful, the seller, the real estate broker and the buyer (borrower) must join in the deception. This practice is regarded as unethical by the real estate profession. Nevertheless, the incidence of this practice is too high to be regarded as incidental.

13. While Mutual Federal's foreclosure rate has been consistently low, its delinquency rate has been uniformly higher than national or regional rates. The national delinquency rate ranges from 1.80 per cent to 2.10 per cent. Mutual Federal's is uniformly above 3.0 per cent, and has reached 4.0 per cent, and above. A check with other Atlanta associations revealed that those which lend essentially to Negroes, experience about the same delinquency rate with respect to this segment of their borrowers. Negroes account for a relatively small percentage

of the total mortgage portfolios of most of Mutual's competitors, but represent a major percentage of Mutual's portfolio.

14. Mutual Federal concentrated its lending in Atlanta's West Side in the early fifties, and until about 1957! Since that time its lending operations have been dispersed throughout Atlanta but with a majority of its loans still being made on West Side properties. For the period, 1951 to 1961, this association worked in close connection with a life insurance company operated by Negroes, and with a commercial bank also operated by this segment of Atlanta's West Side.

15. While Mutual's foreclosure rate has been low, some properties have been brought into the ownership of this association through this facility. Such properties are easily resold for the reason that this association makes no effort to make a profit on such resales; and because the regulation down payment is not operative in these operations.

16. In many cases a solvent borrower will negotiate a loan to Mutual on behalf of a home seeker whose credit would not support the application. The property is later sold to the person with weak credit who assumes the loan. The association is, of course, no part of this scheme but is occasionally victimized by it.

17. In some cases a borrower buys or builds a home making use of all his available funds in fulfillment of the down payment requirement, then applies for FHA Title I (improvement loan) to improve the house to his taste. The FHA Title I loan is insured by a governmental agency but is not a mortgage or lien on the property. This is well known to Mutual's management. The management approves or rejects such improvement loan applications in accordance with applicant's ability to meet payments on the mortgage and the improvement loan.

The policies governing Mutual Federal Savings and Loan Association of Atlanta are illustrated in appropriate tables showing size of loans, interest rates charged, net worth of borrowers, purpose of loans, appraisal value of properties and term of loan for three selected periods. From these tables it will be seen that 579 loans were made in the period July 1, 1951 to June 30, 1953; 184 loans were made in the period July 1, 1955 to June 30, 1957; and 220 loans were made during the period July 1, 1959 to June 30, 1961.

The remaining items in this chapter will be treated empirically, except in one case (insurance coverage) it will be treated narratively as it does not lend itself easily to empirical treatment.

Table 1 shows loans made by Mutual Federal Savings and Loan Association of Atlanta for the period July 1, 1951 to June 30, 1953. There were 579 loans made, ranging in size from $233.60 to $150,000. Typical loans borrowed ranged between $5,000 and $7,500. Of the total, 236 or 40.7 per cent fell in this class. Twenty-one per cent of the loans fell in the class $2,500 to $5,000. There were 14 loans exceeding $20,000, with one amounting to $150,000.

Some of the more progressive savings and loan associations have adopted variable interest plans in recognition of the size and character of the risks. Mutual Federal Savings and Loan is no exception. Table 2 classifies the 579 mortgage loans made by the company according to interest rates charged.

Interest rates charged by Mutual Federal during the period July 1, 1951 to June 30, 1963 ranged from 4 per cent to 7 per cent. The greatest number of interest rates charged to borrowers were for 6 per cent, and 82.1 per cent of all loans made was at this rate. Interest rates of 5 per cent accounted for 8.8 per cent of the total loans made. There was only one loan at the low rate of 4 per cent per annum and 27 loans were at the annual rate of 7 per cent.

The interest rates charged by this association were in line with competitive rates charged in the same period. In conversation with the management of this association it was pointed out that there were several factors which influenced the interest rates charged. Among them were size of loans, credit ratings of borrowers, and prevailing competitive rates. It follows, therefore, that if the association charged an interest rate of 7 per cent per annum on a loan of $223, this would be understandable. If on the other

TABLE 1

CLASSIFICATION OF 579 MORTGAGE LOANS MADE BY MUTUAL FEDERAL SAVINGS AND LOAN ASSOCIATION OF ATLANTA FOR THE PERIOD OF JULY 1, 1951 TO AND INCLUDING JUNE 30, 1953 ACCORDING TO SIZE OF LOANS
(Dollar figures in thousands)

Size	Number	Percent of Total
Under $2.5	31	5.4
$2.5 but less than $5	124	21.5
$5 but less than $7.5	236	40.7
$7.5 but less than $10	104	18.0
$10 but less than $12.5	39	6.7
$12.5 but less than $15	17	2.9
$15 but less than $17.5	12	2.1
$17.5 but less than $20	2	.3
$20 and over	14	2.4
TOTAL	579	100.0

Source: Loan Register of Mutual Federal Savings and Loan Association.

TABLE 2

CLASSIFICATION OF 579 MORTGAGE LOANS MADE BY MUTUAL FEDERAL SAVINGS AND LOAN ASSOCIATION OF ATLANTA FOR THE PERIOD OF JULY 1, 1951 TO AND INCLUDING JUNE 30, 1953 ACCORDING TO INTEREST RATES

Percent	Number of Loans	Percent of total
4	1	.2
$4\frac{1}{4}$	6	1.0
$4\frac{1}{2}$	1	.2
5	51	8.8
$5\frac{1}{2}$	9	1.6
6	476	82.1
$6\frac{1}{2}$	8	1.4
7	27	4.7
TOTAL	579	100.0

Source: Loan Register of Mutual Federal Savings and Loan Association.

hand 5 per cent interest per annum were charged on a short-term (construction) loan of $15,000, this would also be logical, considering risk, expense and other factors. The rate differential has been equated.

As stated earlier in this chapter, Mutual Federal does not make loans on property in excess of 80 per cent of its purchase price or the reasonable appraised value whichever is lower. Table 3 reveals that while over half (51.1 per cent) of the total number of loans made during this period had appraisal values ranging from $5,000 but less than $10,000, loans made for almost this same period (see Table 1) amounted to only 40.7 per cent of the total loans made.

Savings and loan associations may make loans for many different purposes. Among them are refinancing existing loans, purchase of property, construction, repairs, and so on. Table 4 shows that of the 579 loans made between July 1, 1951 and June 30, 1953, 289 or 49.9 per cent were for the purpose of providing funds for construction of homes; seventy-nine or 13.6 per cent were for refinancing existing loans; 154 or 26 per cent were for purchasing of existing homes; and only 57 or 9.9 per cent were for other purposes.

It will be recalled that this period followed the close of World War II by some 5 or 6 years and that labor and construction materials were available in reasonable supply. The fact that new families were being formed, and most of them preferring new homes, could also be a contributing factor for the relative high percentage of construction taking place at this time.

One of the policies of Mutual Federal is not to allow its loans to exceed a maximum period of 20 years. As we proceed in this chapter, it will be seen how this association has carried out this policy. Table 5 shows loans made by Mutual Federal for the period July 1, 1951 to June 30, 1953 according to term of loan. There were 579 loans made, ranging from under 5 years or less. Of the total, 294 or 50.5 per cent fell in this class. One hundred

TABLE 3

CLASSIFICATION OF 579 MORTGAGE LOANS MADE BY MUTUAL FEDERAL SAVINGS AND LOAN ASSOCIATION OF ATLANTA FOR THE PERIOD OF JULY 1, 1951 TO AND INCLUDING JUNE 30, 1953 ACCORDING TO APPRAISAL VALUE OF PROPERTY
(Dollar figures in thousands)

Loans	Number	Percent of Total
Under $5	25	4.3
$5 but less than $10	295	51.0
$10 but less than $15	135	23.1
$15 but less than $20	75	13.0
$20 but less than $25	24	4.1
$25 but less than $30	9	1.6
$30 but less than $35	3	.5
$35 but less than $40	...	...
$40 and over	14	2.4
TOTAL	579	100.0

Source: Loan Register of Mutual Federal Savings and Loan Association.

TABLE 4

CLASSIFICATION OF 579 MORTGAGE LOANS MADE BY MUTUAL FEDERAL SAVINGS AND LOAN ASSOCIATION OF ATLANTA FOR THE PERIOD OF JULY 1, 1951 TO AND INCLUDING JUNE 30, 1953 ACCORDING TO PURPOSE OF LOAN

Purpose	Number	Percent of Total
Purchase	154	26.6
Refinance	79	13.6
Construction	289	49.9
Other*	57	9.9
TOTAL	579	100.0

*Repairs, advances, additions, and etc.

Source: Loan Register of Mutual Federal Savings and Loan Association.

TABLE 5

CLASSIFICATION OF 579 MORTGAGE LOANS MADE BY MUTUAL FEDERAL SAVINGS AND LOAN ASSOCIATION OF ATLANTA FOR THE PERIOD OF JULY 1, 1951 TO AND INCLUDING JUNE 30, 1953 ACCORDING TO TERM OF LOAN

Loan Term in Years	Number	Percent of total
Under 5 years	294	50.5
5 but less than 10	7	1.3
10 but less than 15	95	16.3
15 but less than 20	69	11.9
20 but less than 25	113	19.4
25 years and over	1	0.6
TOTAL	579	100.0

Source: Loan Register of Mutual Federal Savings and Loan Association.

and thirteen or 19.4 per cent of loans fell in the class 20 to 25 years.

The reason for such a high percentage of loans in the class of less than 5 years may be attributed to the fact that this association made "construction" loans. These loans are made only for a period sufficient for building the homes. When the homes are completed, the construction loan is paid off.

A review of the loan register of Mutual Federal showed that the loans extending for 20 years to 25 years were entirely guaranteed and insured by the Veterans Administration and the Federal Housing Administration respectively. While the Veterans Administration makes no insurance charge for the loans which it guarantees, the Federal Housing Administration assesses an insurance premium against the association for loans which it insures.

Since the narration for tables 6 through 18 is similar in nature to that given in table 1 through 5, the writer feels that it is not necessary to repeat the explanation for these tables; however, a summary of all tablés will be given in the tables comparing the three periods.

Table 19 shows a comparison of mortgage loans made by Mutual Federal for three periods. There were 579 loans made in the period, July 1, 1951 to June 30, 1953; 184 loans made during the period July 1, 1955 to June 30, 1957; and 220 loans made during the period July 1, 1959 to June 30, 1961.

On the average there were more loans made during the first period than in either of the two succeeding periods. A review of the monthly financial statements of the association indicated that there were two main reasons for this. First, this period was reasonably close to the termination or World War II and embraced the beginning of the Korean War, hence the economy was growing at a fast rate; and second, the resources of the association had expanded due to federalization of the association and acceptance of share

TABLE 6

CLASSIFICATION OF 100 MORTGAGE LOAN BORROWERS FROM MUTUAL FEDERAL SAVINGS AND LOAN ASSOCIATION OF ATLANTA FOR THE PERIOD OF JULY 1, 1951 TO AND INCLUDING JUNE 30, 1953

ACCORDING TO NET WORTH OF BORROWERS
(Dollar figures in thousands)

Net Worth	Number	Percent of Total
Under $2.5	29	29.0
$2.5 but less than $5	20	20.0
$5 but less than $7.5	16	16.0
$7.5 but less than $10	12	12.0
$10 but less than $12.5	8	8.0
$12.5 but less than $15	6	6.0
$15 but less than $17.5	5	5.0
$17.5 but less than $20	3	3.0
$20 and over	1	1.0
TOTAL	100	100.0

Source: Inactive Mortgage Files of Mutual Federal Savings and Loan Association.

TABLE 7

CLASSIFICATION OF 184 MORTGAGE LOANS BY MUTUAL FEDERAL SAVINGS AND LOAN ASSOCIATION OF ATLANTA FOR THE PERIOD OF JULY 1, 1955 TO AND INCLUDING JUNE 30, 1957

ACCORDING TO SIZE OF LOAN
(Dollar figures in thousands)

Size	Number	Percent of total
Under $2.5	4	2.2
$2.5 but less than $5	42	22.8
$5 but less than $7.5	45	24.6
$7.5 but less than $10	31	16.8
$10 but less than $12.5	44	23.8
$12.5 but less than $15	9	4.9
$15 but less than $17.5	3	1.6
$17.5 but less than $20	2	1.1
$20 and over	4	2.2
TOTAL	184	100.0

Source: Loan Register of Mutual Federal Savings and Loan Association.

TABLE 8

CLASSIFICATION OF 184 MORTGAGE LOANS MADE BY MUTUAL FEDERAL SAVINGS AND LOAN ASSOCIATION OF ATLANTA FOR THE PERIOD OF JULY 1, 1955 TO AND INCLUDING JUNE 30, 1957 ACCORDING TO INTEREST RATES

Interest Rates Percent	Number	Percent of Total
4	...	...
$4\frac{1}{4}$	...	...
$4\frac{1}{2}$	3	1.6
5	7	3.8
$5\frac{1}{2}$	2	1.1
6	166	90.2
$6\frac{1}{2}$	...	3.3
7	6	...
TOTAL	184	100.0

Source: Loan Register of Mutual Federal Savings and Loan Association.

TABLE 9

CLASSIFICATION OF 184 MORTGAGE LOANS MADE BY MUTUAL FEDERAL SAVINGS AND LOAN ASSOCIATION OF ATLANTA FOR THE PERIOD OF JULY 1, 1955 TO AND INCLUDING JUNE 30, 1957 ACCORDING TO APPRAISAL VALUE OF PROPERTY
(Dollar figures in thousands)

Size	Number	Percent of Total
Under $5	10	5.4
$5 but less than $10	74	40.8
$10 but less than $15	67	36.0
$15 but less than $20	26	14.1
$20 but less than $25	5	2.7
$25 but less than $30	1	.5
$30 but less than $35	1	.5
$35 but less than $40	...	...
$40 and over	...	...
TOTAL	184	100.0

Source: Loan Register of Mutual Federal Savings and Loan Association.

TABLE 10

CLASSIFICATION OF 184 MORTGAGE LOANS MADE BY MUTUAL FEDERAL SAVINGS AND LOAN ASSOCIATION OF ATLANTA FOR THE PERIOD OF JULY 1, 1955 TO AND INCLUDING JUNE 30, 1957 ACCORDING TO TERM OF LOAN

Loans in terms of Years	Number	Percent of Total
Under 5 years	9	4.9
5 but less than 10	12	6.5
10 but less than 15	57	31.0
15 but less than 20	53	29.0
20 but less than 25	50	27.0
25 and over	3	1.6
TOTAL	184	100.0

Source: Loan Register of Mutual Federal Savings and Loan Association.

TABLE 11

CLASSIFICATION OF 184 MORTGAGE LOANS MADE BY MUTUAL FEDERAL SAVINGS AND LOAN ASSOCIATION OF ATLANTA FOR THE PERIOD OF JULY 1, 1955 TO AND INCLUDING JUNE 30, 1957 ACCORDING TO PURPOSE OF LOAN

Purpose	Number	Percent of Total
Purchase of property	90	49.0
Refinance of existing Loan	61	33.1
Construction of Home or Other Property	33	17.9
Other	...	...
TOTAL	184	100.0

Source: Loan Register of Mutual Federal Savings and Loan Association.

TABLE 12

CLASSIFICATION OF 48 MORTGAGE LOAN BORROWERS FROM MUTUAL FEDERAL SAVINGS AND LOAN ASSOCIATION OF ATLANTA FOR THE PERIOD OF JULY 1, 1955 TO AND INCLUDING JUNE 30, 1957 ACCORDING TO NET WORTH OF BORROWERS
(Dollar figures in thousands)

Net Worth	Number	Percent of Total
Under $2.5	12	25.0
$2.5 but less than $5	8	16.7
$5 but less than $7.5	8	16.7
$7.5 but less than $10	7	14.6
$10 but less than $12.5	5	10.4
$12.5 but less than $15	4	8.2
$15 but less than $17.5	2	4.2
$17.5 but less than $20	1	2.1
$20 and over	1	2.1
TOTAL	48	100.0

Source: Inactive Mortgage Files of Mutual Federal Savings and Loan Association of Atlanta.

TABLE 13

CLASSIFICATION OF 220 MORTGAGE LOANS MADE BY MUTUAL FEDERAL SAVINGS AND LOAN ASSOCIATION OF ATLANTA FOR THE PERIOD OF JULY 1, 1959 TO AND INCLUDING JUNE 30, 1961

ACCORDING TO SIZE OF LOANS
(Dollar figures in thousands)

Size	Number	Percent of Total
Under $2.5	3	1.36
$2.5 but less than $5	36	16.36
$5 but less than $7.5	52	23.63
$7.5 but less than $10	56	24.54
$10 but less than $12.5	43	19.54
$12.5 but less than $15	19	8.64
$15 but less than $17.5	8	3.66
$17.5 but less than $20	3	1.36
$20 and over	2	.91
TOTAL	220	100.00

Source: Loan Register of Mutual Federal Savings and Loan Association.

TABLE 14

CLASSIFICATION OF 220 MORTGAGE LOANS MADE BY MUTUAL FEDERAL SAVINGS AND LOAN ASSOCIATION OF ATLANTA FOR THE PERIOD OF JULY 1, 1959 TO AND INCLUDING JUNE 30, 1961 ACCORDING TO INTEREST RATES

Interest Rates Percent	Number	Percent of Total
4	...	...
$4\frac{1}{4}$	...	...
$4\frac{1}{2}$	...	...
5	...	...
$5\frac{1}{2}$	...	...
6	33	15.0
$6\frac{1}{2}$	3	1.4
7	57	25.9
$7\frac{1}{2}$	127	57.7
TOTAL	220	100.0

Source: Loan Register of Mutual Federal Savings and Loan Association.

TABLE 15

CLASSIFICATION OF 220 MORTGAGE LOANS MADE BY MUTUAL FEDERAL SAVINGS AND LOAN ASSOCIATION OF ATLANTA FOR THE PERIOD OF JULY 1, 1959 TO AND INCLUDING JUNE 30, 1961

ACCORDING TO APPRAISAL VALUE OF PROPERTY
(Dollar figures in thousands)

Size	Number	Percent of Total
Under $5	9	4.1
$5 but less than $10	71	32.3
$10 but less than $15	80	36.4
$15 but less than $20	45	20.4
$20 but less than $25	5	2.4
$25 but less than $30	6	2.6
$30 but less than $35	2	.9
$35 but less than $40	...	...
$40 and over	2	.9
TOTAL	220	100.0

Source: Loan Register of Mutual Federal Savings and Loan Association.

TABLE 16

CLASSIFICATION OF 220 MORTGAGE LOANS MADE BY MUTUAL FEDERAL SAVINGS AND LOAN ASSOCIATION OF ATLANTA FOR THE PERIOD OF JULY 1, 1959 TO AND INCLUDING JUNE 30, 1961

ACCORDING TO TERM OF LOAN
(Dollar figures in thousands)

Loan Term in Years	Number	Percent of Total
Under 5	12	5.4
5 but less than 10	8	3.7
10 but less than 15	46	20.9
15 but less than 20	58	26.4
20 but less than 25	95	43.2
25 and over	1	.4
TOTAL	220	100.0

Source: Loan Register of Mutual Federal Savings and Loan Association.

TABLE 17

CLASSIFICATION OF 220 MORTGAGE LOANS MADE BY MUTUAL FEDERAL SAVINGS AND LOAN ASSOCIATION OF ATLANTA FOR THE PERIOD OF JULY 1, 1959 TO AND INCLUDING JUNE 30, 1961

ACCORDING TO PURPOSE OF LOAN
(Dollar figures in thousands)

Purpose	Number	Percent of total
Purchase of Property	80	36.4
Refinance of Existing Loans	101	45.9
Construction of Home or Property	38	17.3
Other	1	.4
TOTAL	220	100.0

Source: Loan Register of Mutual Federal Savings and Loan Association.

TABLE 18

CLASSIFICATION OF 79 MORTGAGE LOAN BORROWERS FROM MUTUAL FEDERAL SAVINGS AND LOAN ASSOCIATION OF ATLANTA FOR THE PERIOD OF JULY 1, 1959 TO AND INCLUDING JUNE 30, 1961

ACCORDING TO NET WORTH OF BORROWERS
(Dollar figures in thousands)

Net Worth	Number	Percent of Total
Under $2.5	10	12.7
$2.5 but less than $5	12	15.2
$5 but less than $7.5	12	15.2
$7.5 but less than $10	10	12.7
$10 but less than $12.5	10	12.7
$12.5 but less than $15	9	11.3
$15 but less than $17.5	8	10.6
$17.5 but less than $20	5	6.3
$20 and over	3	3.8
TOTAL	79	100.0

Source: Loan Register of Mutual Federal Savings and Loan Association.

TABLE 19

COMPARISON OF MORTGAGE LOANS MADE BY MUTUAL FEDERAL SAVINGS AND LOAN ASSOCIATION FOR THREE PERIODS SELECTED IN TERMS OF SIZE OF LOANS
(Dollar figures in thousands)

Size	Periods 1951-53 Percent	1955-57 Percent	1959-61 Percent
Under $2.5	5.4	2.2	1.4
$2.5 but less than $5	21.5	22.8	16.4
$5 but less than $7.5	40.7	24.6	23.6
$7.5 but less than $10	18.0	16.8	24.5
$10 but less than $12.5	6.7	23.8	19.5
$12.5 but less than $15	2.9	4.9	8.6
$15 but less than $17.5	2.1	1.6	3.7
$17.5 but less than $20	.3	1.1	1.4
$20 and over	2.4	2.2	.9
TOTAL	100.0	100.0	100.0

Source: Loan Register of Mutual Federal Savings and Loan Association.

accounts from out of area members. By 1956, supervisory authorities had begun to discourage the solicitation of funds through national advertising media, and as a result, the growth of the association depended largely on local sources.

Table 20 indicates that a total of 11.8 per cent of loans made by the association were at interest rates of $5\frac{1}{2}$ per cent per annum and below during the sample period of 1951 to 1953, and 6.5 per cent of loans made during the sample period 1955 to 1959 were at these low rates. No loans were made at these rates in the more recent period, 1959-1961. Some loans were made at rates as low as 4 per cent and $4\frac{1}{2}$ per cent in the earliest sample period but no loans were made at these rates during the two subsequent sample periods.

Six per cent loans dominated the lending in the first and second sample periods, while 95.3 per cent and 96.7 per cent of loans made during the first and second sample periods respectively were at interest rates lower than 7 per cent. In the period, 1959-1961 only 16.3 per cent of loans made were at rates lower than 7 per cent, and none was made lower than 6 per cent in that period.

During the first sample period and to a lesser extent in the second, the association engaged in lending operations involving veterans of World War II, and made some loans which were insured by the Federal Housing Administration (FHA). Loans of these classes were not made to any degree during the third sample period.

Management explained that dividend rates paid to saving members had risen significantly, hence, interest rate policy had to be modified in order that the over all average yield on mortgage loans would be adequate to meet these dividend pressures and cover operation costs as well as meet statuatory reserve additions. The president pointed out that federal savings

TABLE 20

COMPARISON OF MORTGAGE LOANS MADE BY MUTUAL FEDERAL SAVINGS AND LOAN ASSOCIATION FOR THREE PERIODS SELECTED IN TERMS OF INTEREST RATES

Rates Percent	Periods 1951-53 Percent	1955-57 Percent	1959-61 Percent
4	.2	...	...
$4\frac{1}{4}$	1.0	...	...
$4\frac{1}{2}$	.2	1.6	...
5	8.8	3.8	...
$5\frac{1}{2}$	1.6	1.1	...
6	82.1	90.2	15.0
$6\frac{1}{2}$	1.4	...	1.4
7	4.7	3.3	25.9
$7\frac{1}{2}$	...	...	57.7
TOTAL	100.0	100.0	100.0

Source: Loan Register of Mutual Federal Savings and Loan Association.

and loan associations are required to place to reserves semi-annually 25 per cent of net earnings before dividends until total reserves of such associations equal to 5 per cent of their savings capital. Thereafter the required allocation to reserves is reduced to 5 per cent. The savings capital of Mutual Federal grew during the years, 1952 to 1956 at a much greater rate than did earnings and reserves. Management stated that this growth was discouraged in order that earnings and reserves might be brought into a respectable ratio to the savings capital.

The information regarding the interest rate and reserve policies is borne out by an inspection which this researcher was permitted to make of the association's monthly reports which it made to the Federal Home Loan Bank Board for the period 1951 through 1961.[2] The July, 1953 report showed a reserve ratio of only 1.48 per cent. By July, 1956 this ratio had grown to 5.15 per cent; and at July, 1961 this ratio stood at 7.50 per cent.

Except for VA and FHA loans, the policy of Mutual Federal is not to make loans for more than 80 per cent of the property pledged as security for such loans. These federal agencies make appraisals of properties which they guarantee or insure. These types of loans may, therefore, be made up to 100 per cent of appraised value. This association made no loans during the sample periods, however, of 100 per cent of value. (See Table 21).

Loans for the purchase of existing homes accounted for high percentages of loans made in all of the sample periods. (See Table 22). This could be explained by the fact that as families out grew their homes, or if their incomes increased markedly, they sold their old homes and built new ones.

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[2]Monthly reports, Mutual Federal Savings and Loan Association for July, 1953; July, 1956; and July, 1961.

TABLE 21

COMPARISON OF MORTGAGE LOANS MADE BY MUTUAL FEDERAL SAVINGS AND LOAN ASSOCIATION FOR THREE PERIODS SELECTED IN TERMS OF APPRAISAL VALUE OF PROPERTY

Loans	1951-53 Percent	Periods 1955-57 Percent	1959-61 Percent
Under $5	4.3	5.4	4.1
$5 but less than $10	51.0	40.8	32.3
$10 but less than $15	23.1	36.0	36.4
$15 but less than $20	13.0	14.1	20.4
$20 but less than $25	4.1	2.7	2.3
$25 but less than $30	1.6	.5	2.7
$30 but less than $35	.5	.5	.9
$35 but less than $40	...	...	...
$40 and over	2.4	...	.9
TOTAL	100.0	100.0	100.0

Source: Loan Register of Mutual Federal Savings and Loan Association.

TABLE 22

COMPARISON OF MORTGAGE LOANS MADE BY MUTUAL FEDERAL SAVINGS AND LOAN ASSOCIATION FOR THREE PERIODS SELECTED IN TERMS OF PURPOSE OF LOAN

Purpose	Periods 1951-53 Percent	1955-57 Percent	1959-61 Percent
Purchase	26.6	49.0	36.4
Refinance	13.6	33.1	45.9
Construction	49.9	17.9	17.3
Other	9.9	...	.4
TOTAL	100.0	100.0	100.0

Source: Loan Register of Mutual Federal Savings and Loan Association.

This made it possible for persons whose family structures and incomes accommodate themselves to lower priced homes and smaller monthly payments to acquire them.

Table 23 shows a heavy concentration of loans made for 20 but less than 25 years and the percentage assigned to this category is 43.18 per cent. This is misleading. Actually no loan was made for more than 20 years in this class. The entire percentage, then, is related to loans made for exactly 20 years. The arrangement of this table is consistent with other tables in this research. The lower limit of this class is 20 years and the interval is 5 years.

Mutual Federal uses as a factor in determinating whether or not a loan is to be made, the credit report. This report is usually furnished by a credit reporting agency such as the Retail Credit Bureau, or in some cases Dunn and Bradstreet. Among matters reported by these agencies is one which deals with applicants net worth (assets less debts). Table 24 shows that there was an increase in the net worth of the applicants from 1951 to 1961. Although this increase was not uniform, there was generally a decrease in the percentage of applicants whose net worth was less than $2,500; and there was generally an increase in the percentage of those applicants whose net worth was more than $17,500. This could be accounted for by the fact that over the period of time covered between the three sampling segments of time, there was a general increase in wages in the element of the population which sought loans from the association. This increase in wage credits evidently resulted in an increase in the borrowers net worth. Since the association decreased its activity in lending operations concerned with VA and FHA loans as the decade progressed, it is significant to observe that applicants with net worth of $15,000 or more represented relatively low percentages of applicants included is all of the periods.

TABLE 23

COMPARISON OF MORTGAGE LOANS MADE BY MUTUAL FEDERAL SAVINGS AND LOAN ASSOCIATION FOR THREE PERIODS SELECTED IN TERMS OF TERM OF LOAN

Years	Periods 1951-53 Percent	1955-57 Percent	1959-61 Percent
Under 5 years	50.5	4.9	5.4
5 but less than 10	1.3	6.5	3.7
10 but less than 15	16.3	31.0	20.9
15 but less than 20	11.9	29.0	26.4
20 but less than 25	19.4	27.0	43.2
25 and over	.6	1.6	.4
TOTAL	100.0	100.0	100.0

Source: Loan Register of Mutual Federal Savings and Loan Association.

TABLE 24

COMPARISON OF MORTGAGE LOAN BORROWERS FROM MUTUAL FEDERAL SAVINGS AND LOAN ASSOCIATION FOR THREE PERIODS SELECTED IN TERMS OF NET WORTH OF BORROWERS
(Dollar figures in thousands)

Net Worth	Periods 1951-53 Percent	1955-57 Percent	1959-61 Percent
Under $2.5	29.7	25.0	12.7
$2.5 but less than $5	20.0	16.7	15.2
$5 but less than $7.5	15.3	16.7	15.2
$7.5 but less than $10	12.0	14.6	12.7
$10 but less than $12.5	8.0	10.4	12.7
$12.5 but less than $15	6.0	8.2	11.3
$15 but less than $17.5	5.0	4.2	10.6
$17.5 but less than $20	3.0	2.1	6.3
$20 and over	1.0	2.1	3.8
TOTAL	100.0	100.0	100.0

Source: Inactive Mortgage Files of Mutual Federal Savings and Loan Association.

These net worth figures were drawn from credit reports contained in mortgage files which has been closed out through pay offs or other terminations. The management of the association was not inclined to permit this researcher to investigate into the live mortgage files of the association; consequently, she had to content herself with the closed out files which originated in the respective sample periods.

Federal regulations require savings and loan associations to secure hazard insurance on properties which they accept as security for loans. This insurance usually covers losses due to fire, windstorm, burglary, civil commotion, plate glass, and other extended coverage hazards. Such insurances must be sufficient in amount to entirely liquidate the loan in case of total destruction of the property held as security.

In line with the above requirement, borrowers at Mutual Federal must procure insurance sufficient not only to cover the loan to the association but to cover the equity in the property as well. The insurance need not cover the value of land as it is not subject to the hazard involved.

CHAPTER IV

SUMMARY AND CONCLUSION

The savings and loan association stands today as one of the vital components of the American economy as a result of its continued role of encouragement of thrift and home ownership. In this regard it has made a significant contribution to the development of the economy. More specifically, the institution has been of even greater importance to Negro people who are, as a race, low income receivers with great pent-up economic needs and a high propensity to consume. Mutual Federal Savings and Loan Association of Atlanta is a good case in this point. Thousands of Negroes are enjoying a better standard of living because the association, through its lending policies, has made it possible for them to either improve their homes or build new ones.

Mutual Federal, like most savings and loan associations, has had some trying experiences during its history. As a result of these experiences, its Board of Directors was forced to set up definite lending policies as conditions warranted in addition to those required in compliance with the Federal Home Loan Bank System. In executing these policies, Mutual Federal has never exceeded its authority as laid down by state, or more recently, federal regulations.

The tremendous growth of the association from 1952 to 1956 made it possible for the association to engage heavily in construction loans and substantially in loans insured by the Federal Housing Administration or guaranteed by the Veterans Administration. As the decade continued, less funds were available for these purposes and, moreover, interest rates increased making it inadvisable, if not impossible, to process loans of these classes.

The heavy demand for loans in connection with the purchase of homes and refinancing of existing loans made it possible for interest rates charged to borrowers to be greatly increased. This interest rate increase was consistent with the requirement to increase surplus reserves. It is here recalled that federal savings and loan associations are required to place to reserves semi-annually 25 per cent of net earnings before dividends until total reserves of such associations equal to 5 per cent of their savings capital. Thereafter, the required allocation to reserves is reduced to 5 per cent. In 1951 to 1953, the reserves of Mutual Federal were seriously inadequate. Management lending policies were important factors in solving this very low ratio. By 1961, the reserve ratio of the association compared favorably with all comparable associations in the fourth Federal Home Loan District, as well as with associations of similar size located elsewhere in the United States.

As stated earlier in this research, numerous circumstances determine the extent of home building. Among these are (1) the number of newly formed households, (2) the level of family income, and (3) facilities for mortgage. It will be reasonable to assume, then, that Atlanta's need for more homes is increasing at a rate commensurate with its population and income. Moreover, Mutual Federal's sound lending policies have provided an answer to this expansion. If one drives through Atlanta's West Side, one will see concrete examples of Mutual Federal's lending policies and its significant contribution to the economy of the South and the nation.

Another contribution which Mutual Federal has brought through its sound lending policies is greater unity and better morale of Negroes. It has created jobs for this ethnic group and has been a factor in the production of wealth for the masses of people. Economic security is one of the most important needs of the Negro; and, Mutual Federal, through its lending policies, is giving greater economic security.

By the performances of Mutual in the past, and the upward trend of the economy for the future, it can be predicted that with continued sound lending policies and practices, it will remain an invaluable asset to the Negroes which represent the majority of its clientele.

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